

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name POWDERHORN AREA UTILITY DISTRICT	County GOGEBIC
Fiscal Year End 9/30/2006	Opinion Date 2/23/2007	Date Audit Report Submitted to State 2/26/2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).




Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) DAVID TRACZYK CPA		Telephone Number 715-561-3299	
Street Address 327 SILVER STREET		City HURLEY	State WI
		Zip 54534	
Authorizing CPA Signature 		Printed Name DAVID TRACZYK CPA	License Number 110011098

POWDERHORN AREA UTILITY DISTRICT
IRONWOOD, MICHIGAN
AUDITED FINANCIAL STATEMENTS

Years ended September 30, 2006 and 2005

Table of Contents

	Page
Management's Discussion and Analysis	3
Independent Auditor's Report	7
Statement of Net Assets	8
Statement of Revenues, Expenses, and Changes in Net Assets	10
Statement of Cash Flows	11
Notes to Financial Statements	12
Other Financial Information:	
Schedule of Expenditures of Federal Awards	21
Notes to Schedule of Expenditures of Federal Awards	22
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	23
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	25
Schedule of Findings and Questioned Costs	27
Summary Schedule of Prior Audit Findings	28

POWDERHORN AREA UTILITY DISTRICT
Management Discussion and Analysis
Years ended September 30, 2006 and 2005

This section of the Powderhorn Area Utility District's (the 'District') annual financial reports present our discussion and analysis of the District's financial performance during the years ended September 30, 2006 and 2005. It is to be read in conjunction with the District's financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB34) Basic Financial Statements – and Managements Discussion and Analysis – For State and Local Governments, as amended and interpreted, and is intended to provide the financial results for the fiscal years ending September 30, 2006 and 2005.

GENERAL INFORMATION

The Powderhorn Area Utility District (District) was formed in December of 2001 by the Charter Township of Ironwood and Bessemer Township as a municipal District to construct a sanitary sewer collection and transmission system in the Powderhorn Ski Resort area. The sewage will be treated at the Bessemer Area Sewer District plant located on Stone Road in Ironwood Township. The two Townships were acting as a result of a Consent Degree issued by the Michigan Department of Environmental Quality to correct the problem of failed on-site septic systems that had out lived their useful lives. The two Townships set up a special assessment district to fund the preliminary expense of system design, administration and debt service until the system connects users and collects fees to support the operations. Since this type of utility is a "user" based system all of the costs associated with the construction, operation and debt service come from charges to the user of the system and not the general public.

The total cost of the project including engineering, construction, inspection, legal fees and contingency is \$7,800,000. Funding for the project consists of a \$1,000,000, grant from the Clean Michigan Initiative Fund, \$385,000 hardship grant from the Michigan State Revolving Fund and the remainder of funding is a 40 year loan from USDA Rural Development. The project engineers are Wilcox Professional Services of Escanaba, MI. Construction began on December 1, 2004 with the cross country transmission main and should be completed in 2007.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities as of September 30, 2006 and 2005 by \$2,276,553 and \$1,954,604, respectively.
- The District's investment in capital assets, net of related debt as of September 30, 2006 and 2005 was \$1,609,345 and \$1,401,737, respectively.
- The District's total revenue for the fiscal year ended September 30, 2006 and 2005, was \$59,849 and \$13,398, respectively.
- The District's total expenses for the fiscal year ended September 30, 2006 and 2005 was \$41,583 and \$22,150, respectively. The District capitalized interest incurred and paid in the fiscal year ended September 30, 2005 of \$15,661, and \$103,183 in 2006.
- The District's capital contributions (grants) for the fiscal year ended September 30, 2006 and 2005 of \$7,484 and \$1,340,910, respectively.
- The District added \$3,000,711 and \$2,740,887 to its plant assets during the fiscal years ended September 30, 2006 and 2005 respectively. These were funded primarily by grants and bond proceeds.

OVERVIEW OF THE FINANCIAL STATEMENTS

The following financial statements are included in this report:

- Statement of Net Assets – reports the District current financial resources: its cash and other current assets, its current and non-current liabilities and comparing those two elements, the resulting net assets of the District.
- Statement of Revenue, Expenses and Changes in Net Assets – reports the District's various revenue and expenses.
- Statement of Cash Flows – reports sources and uses of cash by operating activities, capital and related financing activities, and investing activities.

ANALYSIS OF FINANCIAL STATEMENTS

Condensed Financial Information

Statement of Net Assets

The following is a condensed statement of net assets with a detailed analysis of the statement below as of September 30,

	2006	2005	Increase (Decrease)
Current Assets:			
Checking / Savings	\$ 655,306	\$ 510,501	\$ 144,805
Other Current Assets	15,884	1,869	14,015
Total Current Assets	671,190	512,370	158,820
Fixed Assets	6,161,657	3,161,639	3,000,018
Other Assets	40,090	41,922	(1,832)
TOTAL ASSETS	\$ 6,872,937	\$ 3,715,931	\$ 3,157,006
LIABILITIES & EQUITY			
Current Liabilities:			
Account Payable	\$ 1,052,930	\$ 241,972	\$ 810,958
Other Current Liabilities	65,854	61,250	4,604
Total Current Liabilities	1,118,784	303,222	815,562
Other Liabilities	3,477,600	1,458,105	2,019,495
Total Liabilities	4,596,384	1,761,327	2,835,057
Equity	2,276,553	1,954,604	321,949
TOTAL LIABILITIES & EQUITY	\$ 6,872,937	\$ 3,715,931	\$ 3,157,006
NET ASSETS			
Invested in capital assets, net of related debt	\$ 1,609,345	\$ 1,401,737	\$ 207,608
Restricted for debt service	-	-	-
Restricted for capital projects	73	777	(704)
Unrestricted	667,135	552,090	115,045
Total Net Assets	\$ 2,276,553	\$ 1,954,604	\$ 321,949

The amounts listed as invested in capital assets, net of related debt is derived by taking the cost of fixed assets net of accumulated depreciation, and subtracting liabilities incurred to finance those assets.

Statement of Revenues, Expenses, and changes in Net Assets

The results of operations for the District are reported in the statement of revenues, expenses, and changes in net assets. A summary of the results of operations are as follows for the years ended September 30,

	2006	2005	Increase (Decrease)
Operating Revenues:			
Services	\$ 30,278	\$ -	\$ 30,278
Total Operating Revenue	30,278	-	30,278
Operating Expenses	40,528	21,095	19,433
Operating Income (loss)	(10,250)	(21,095)	10,845
Other Revenue (Expenses):			
Interest Income	29,571	13,398	16,173
Amortization	(1,055)	(1,055)	-
Transfers in	296,199	297,728	(1,529)
Transfers out	-	(300,000)	300,000
Capital contributions	7,484	1,340,910	(1,333,426)
Change in Net Assets	321,949	1,329,886	(1,007,937)
Beginning Net Assets	1,954,604	624,718	1,329,886
Ending Net Assets	\$ 2,276,553	\$ 1,954,604	\$ 321,949

Fund Budget Items

The District prepared an annual budget and revises it to account for changes in expenditures as needed.

Capital Assets

At September 30, 2006 and 2005, the District had \$6,161,657 and \$3,161,639, respectively, invested in capital assets, net of accumulated depreciation. Assets were capitalized at historical cost. The District added \$3,000,711 and 2,740,887 of plant assets during the years ended September 30, 2006 and 2005, respectively.

Debt

The District has \$3,540,600 and 1,271,600 of long-term liabilities at September 30, 2006 and 2005 respectively. This amount consists of construction bonds payable to USDA Rural Development. Detail on the bonds can be found in the notes to the financial statements.

Future Considerations

Continuing efforts are being made to obtain grant and loan financing for developing the District regional sewer system and serve the infrastructure needs of the District members.

Contacting the District

If you have any questions about this report or need additional information, contact the District Administrator at N10338 Mill Street – P.O. Box 445, Ramsay, MI 49959; telephone number 906-667-0465.

DAVID TRACZYK

Certified Public Accountant

327 SILVER STREET
HURLEY, WISCONSIN 54534-1255

Member: AICPA, WICPA

Licensed: MI, WI

Tel: 715-561-3299

Fax: 715-561-4099

INDEPENDENT AUDITOR'S REPORT

Chairman and Members of the Board
Powderhorn Area Utility District
Ironwood, Michigan

I have audited the accompanying basic financial statements of Powderhorn Area Utility District (the "District"), as of and for the years ended September 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Powderhorn Area Utility District as of September 30, 2006 and 2005, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards I have also issued my report dated February 23, 2007, on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

My audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements of Powderhorn Area Utility District. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The management's discussion and analysis information on pages 3 through 6, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

February 23, 2007

POWDERHORN AREA UTILITY DISTRICT
STATEMENT OF NET ASSETS
September 30,

ASSETS

	<u>2006</u>	<u>2005</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 655,233	\$ 510,501
Accounts receivable	8,359	-
Due from State	5,660	-
Prepaid expenses	<u>1,865</u>	<u>1,869</u>
Total current assets	671,117	512,370
NONCURRENT ASSETS		
RESTRICTED ASSETS		
Cash and cash equivalents	<u>73</u>	<u>777</u>
Total restricted assets	73	777
CAPITAL ASSETS		
Property, plant and equipment	6,163,043	3,162,332
Less accumulated depreciation	<u>(1,386)</u>	<u>(693)</u>
Total capital assets	6,161,657	3,161,639
OTHER ASSETS		
Bond issue costs, net	<u>40,090</u>	<u>41,145</u>
Total other assets	<u>40,090</u>	<u>41,145</u>
Total noncurrent assets	<u>6,201,820</u>	<u>3,203,561</u>
Total assets	<u><u>\$ 6,872,937</u></u>	<u><u>\$ 3,715,931</u></u>

See accompanying notes to basic financial statements.

POWDERHORN AREA UTILITY DISTRICT
STATEMENT OF NET ASSETS
September 30,

LIABILITIES

	<u>2006</u>	<u>2005</u>
CURRENT LIABILITIES		
Accounts payable	\$ 1,128	\$ 175
Accounts payable - construction	750,082	241,020
Accrued wages	1,495	-
Accrued interest	<u>1,359</u>	<u>1,250</u>
Total current liabilities	754,064	242,445
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Accounts payable - construction	73	777
Notes and bonds payable	<u>63000</u>	<u>60000</u>
Total current liabilities payable from restricted assets	63,073	60,777
NONCURRENT LIABILITIES		
Accounts payable - construction	301,647	246,505
Notes and bonds payable, net	<u>3477600</u>	<u>1211600</u>
Total noncurrent liabilities	<u>3,779,247</u>	<u>1,458,105</u>
Total liabilities	<u>4,596,384</u>	<u>1,761,327</u>

NET ASSETS

Invested in capital assets, net of related debt	1,609,345	1,401,737
Restricted for debt service	-	-
Restricted for capital projects	73	777
Unrestricted	<u>667135</u>	<u>552090</u>
Total net assets	<u>\$ 2,276,553</u>	<u>\$ 1,954,604</u>

See accompanying notes to basic financial statements.

POWDERHORN AREA UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Years ended September 30,

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Charges for services	<u>\$30,278</u>	\$ -
Total operating revenues	30,278	-
Operating expenses:		
Administrative wages	15,000	12,500
Fringe benefits	4,479	3,366
Insurance	2,653	2,702
Professional fees	8,000	-
Office expenses	2,767	1,834
Treatment services	3,153	-
Utilities	2,125	-
Maintenance	1,557	-
Supplies	101	-
Depreciation	<u>693</u>	<u>693</u>
Total operating expenses	<u>40,528</u>	<u>21,095</u>
Operating Income (Loss)	(10,250)	(21,095)
Non-operating revenues (expenses):		
Interest income	29,571	13,398
Amortization of debt expense	<u>(1,055)</u>	<u>(1,055)</u>
Total non-operating revenue (expenses)	<u>28,516</u>	<u>12,343</u>
Net Income Before Transfers and Contributions	18,266	(8,752)
Transfers from municipalities	296,199	297,728
Transfers to municipalities	-	(300,000)
Capital contributions	<u>7,484</u>	<u>1,340,910</u>
Change in Net Assets	321,949	1,329,886
Net Assets at Beginning of Year	<u>1,954,604</u>	<u>624,718</u>
Net Assets at End of Year	<u><u>\$ 2,276,553</u></u>	<u><u>\$ 1,954,604</u></u>

See accompanying notes to basic financial statements.

POWDERHORN AREA UTILITY DISTRICT
STATEMENT OF CASH FLOWS
Years ended September 30,

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 21,919	\$ -
Payments to suppliers	(23,408)	(7,727)
Payments to employees	<u>(15,225)</u>	<u>(20,000)</u>
Net Cash Provided (Used) by Operating Activities	(16,714)	(27,727)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(2,334,029)	(2,339,388)
Receipts from municipalities	296,199	297,728
Payments to municipalities	-	(300,000)
Capital contributions	1,824	1,340,910
Proceeds from bonds payable	2,329,000	1,328,600
Principal paid on bonds payable	(60,000)	(57,000)
Interest paid on bonds payable	(101,823)	(15,661)
Bond issuance costs	<u>-</u>	<u>(42,200)</u>
Net Cash Provided (Used) for Capital and Related Financing Activities	131,171	212,989
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received on investments	<u>29,571</u>	<u>13,398</u>
Net Cash Provided (Used) by Investing Activities	<u>29,571</u>	<u>13,398</u>
Net Increases (Decrease) in Cash and Cash Equivalents	144,028	198,660
Balances - Beginning of Year	<u>511,278</u>	<u>312,618</u>
Balances - End of Year	<u><u>\$655,306</u></u>	<u><u>\$511,278</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	(\$10,250)	(\$21,095)
Adjustments to reconcile operating income (loss) to net cash provided (Used) by operating activities:		
Depreciation	693	693
Change in assets and liabilities:		
Accrued wages	245	-
Prepaid expenses	4	-
Accounts payable	953	-
Accounts receivable	<u>(8,359)</u>	<u>(7,325)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>(\$16,714)</u></u>	<u><u>(\$27,727)</u></u>
Noncash investing, capital and financing activities:		
Construction financed by accounts payable	\$1,051,802	\$385,838
Capitalized interest accrued on plant construction	103,183	25,880

See accompanying notes to basic financial statements.

POWDERHORN AREA UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

September 30, 2006 and 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Powderhorn Area Utility District (the District) was formed on December 11, 2001 as a municipal authority under the provisions of Act 233 of Public Acts of Michigan, 1955, as amended. The municipalities creating the District were the Charter Township of Ironwood, and Bessemer Township, each of the County of Gogebic Michigan. The District was formed for the purpose of acquiring, building, owning, extending, improving, operating, maintaining, repairing, and administering a sewage disposal system and a water supply system.

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP). The basic – but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing District, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the District and/or its constituents, or whether the activity is conducted within the geographic boundaries of the District and is generally available to its constituents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities.

Based upon the application of these criteria, the basic financial statements of the District contain all the funds and account groups controlled by the District's Board as no other entity meets the criteria to be considered a component unit of the District nor is the District a component unit of another entity.

Measurement Focus, Basis of Accounting and Basis of Presentation

The financial statements of the District are prepared in accordance with accounting principles generally accepted in the United States of America. The District applies all relevant Government Accounting Standards Board (GASB) pronouncements. As enterprise funds, the District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The District has not adopted GASB Statement No. 20.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The accrual basis of accounting is used by the District. Under the accrual basis, revenues are recognized when earned and expenses are recorded when incurred. The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statements of net assets. Net assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted; and unrestricted components.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Operating revenues and expenses are distinguished from nonoperating items in the statement of revenues, expenses and changes in net assets. Operating revenues and expenses result from providing services in connection with the District's principal ongoing operations. Principal operating revenues of the District are charges to customers for water use and charges to member municipalities to recover the costs within the individual municipalities. The charges to recover the financing costs are allocated to the member municipalities based on construction cost allocations. Operating expenses include the cost of providing sewage disposal, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal nonoperating revenues of the District are grants and investment income. The principal nonoperating expenses of the District include interest expense.

Capital grant funding represents amounts received from capital project grants which are restricted to capital acquisition or construction. The District recognizes capital grant funding when the grants are earned which is generally when the related capital expenditure is made.

Deposits and Investments

Deposits are carried at cost. Deposits are in several financial institutions in the name of the Local Unit Treasurer. Michigan Compiled Laws, Section 129.91, authorizes the Local Unit to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations. Investments can also be made in bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States government or Federal agency obligation repurchase agreements; bankers' acceptance of the United States banks; commercial paper rated within the three highest classifications by not less than two standard ratings services which mature not more than 270 days after the date of purchase and which involve no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Local Unit's deposits are in accordance with statutory District.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Receivables

Accounts receivable have been shown net of an allowance for uncollectible accounts. As of September 30, 2006 and 2005, the District accounts receivable were \$14,019 and \$0, respectively.

The District does not accrue unbilled service at the end of the year with respect to service provided but not billed at such date.

Capital Assets

Capital assets are generally defined by the District as assets with an initial, individual cost of more than \$1,000. Maintenance and repair costs are charged to expense as incurred.

Capital assets are reported at cost or the fair market value at the time of contribution to the District. Major outlays for plant are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the plant constructed, net of interest earned on the invested proceeds over the same period. Capital assets in service are depreciated using the straight-line method over the following useful lives:

Source of supply	40 - 100
Pumping	20 - 100
Water treatment	40
Transmission and distribution	50 - 100
General	5 - 40

Bond Issue Costs

Bond issue costs are amortized to expense over the life of the related indebtedness.

Compensated Absences

The District has one employee that receives a salary. There are no accrued vacation or sick leave costs.

Equity Classifications

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bond's mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets—All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE B – CASH AND INVESTMENTS

All deposits were made in a bank authorized by the Board of Directors and under District of State of Michigan deposit laws. Operating cash balances were \$200,501 and 312,580 at September 30, 2006 and 2005, respectively. All deposits were made in financial institutions whose deposits are covered by federal depository insurance. For the purpose of the statement of cash flows, the District considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents. Investing is performed in accordance with investment policies complying with state statutes.

Restricted cash consisted of the following:

1. Construction Account, these are checking accounts used to receive loan and grant proceeds to be used solely to pay construction costs:

September 30, 2005	\$	777
September 30, 2006		73

In accordance with GASB Statement No. 3, risk disclosure for bank deposits at September 30, 2006 and 2005 are:

	<u>2006</u>	<u>2005</u>
a. Insured or collateralized with securities held by the entity or by its agent in the entity's name.	\$ 100,000	\$ 100,000
b. Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.	-	-
c. Uncollateralized (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name.)	<u>555,306</u>	<u>434,317</u>
Subtotal	\$ 655,306	\$ 534,317
Less outstanding checks	<u>-</u>	<u>(23,039)</u>
Balance at September 30,	<u><u>\$ 655,306</u></u>	<u><u>\$ 511,278</u></u>

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE C – CAPITAL ASSETS

A summary of the changes in the District's capital assets for the year ended September 30, is as follows:

	09.30.05 Balance	Additions	Retired	09.30.06 Balance
Office equipment	\$ 3,463	\$ -	\$ -	\$ 3,463
General Equipment	-	2,500	-	2,500
Construction in progress	3,158,869	2,998,211	-	6,157,080
	<u>\$ 3,162,332</u>	<u>\$ 3,000,711</u>	<u>\$ -</u>	<u>\$ 6,163,043</u>

The equipment is being depreciated over 5 years using the straight-line method. The construction in progress will be allocated to the various plant components and depreciated upon completion at various lives. Final completion is anticipated in 2007, at which time the plant will become operational.

NOTE D – CONSTRUCTION IN PROGRESS

At September 30, 2006, plant construction was 85% complete. Total project costs have been estimated at \$7,881,250. Funding consists of \$6,500,000 of bonds and \$1,000,000 of grants from USDA – Rural Development, along with a state grant of \$381,250. Customers began connecting to the system in 2006. The project is expected to be fully complete in 2007 and all customers are expected to be connected.

NOTE E – DEFERRED LOAN COSTS

Expenses incurred in connection with the issuance of bonds are being amortized over the lives of the related debt as follows:

	<u>Bond Issue Series 2004</u>	<u>Total</u>
Debt issuance costs	\$ 42,200	\$ 42,200
Amortization:		
Beginning balance	1,055	1,055
Current year	<u>1,055</u>	<u>1,055</u>
Accumulated balance	<u>2,110</u>	<u>2,110</u>
Ending Balance	<u>\$ 40,090</u>	<u>\$ 40,090</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE F – LONG TERM DEBT

On October 14, 2004, the District issued Sewage Disposal System No. 1 Limited Tax General Obligation Bonds, Series 2004A and 2004B for \$5,598,000 and \$902,000, respectively. They both bear interest @ 4.5%. They were single issue bonds purchased by USDA - Rural Development. At September 30, 2006 the outstanding balances were \$2,654,600 for the series 2004A bond, and \$886,000 for series 2004B.

These bonds are payable by the District from proceeds of contracted payments to be paid by the member municipalities. Principal payments are due October 1 and interest is due April 1 and October 1 of each year.

A summary of changes in long-term debt for the year ended September 30, 2005 are as follows:

	Balance at September 30, 2005	Additions	Payments	Balance at September 30, 2006	Due Within One Year
Series 2004A	\$ 377,600	\$ 2,329,000	\$ 52,000	\$ 2,654,600	\$ 54,000
Series 2004B	894,000	-	8,000	886,000	9,000
	<u>\$ 1,271,600</u>	<u>\$ 2,329,000</u>	<u>\$ 60,000</u>	<u>\$ 3,540,600</u>	<u>\$ 63,000</u>

The annual aggregate maturities for the bonds for years subsequent to September 30, 2006 are as follows:

Year ending September 30,	Principal	Interest	Total
2007	\$ 63,000	\$ 287,235	\$ 350,235
2008	66,000	284,400	350,400
2009	69,000	281,430	350,430
2010	72,000	278,325	350,325
2011	75,000	275,085	350,085
2012-2016	434,000	1,321,335	1,755,335
2017-2021	548,000	1,213,875	1,761,875
2022-2026	689,000	1,078,515	1,767,515
2027-2031	871,000	907,695	1,778,695
2032-2036	1,098,000	692,325	1,790,325
2037-2041	1,385,000	420,660	1,805,660
2042-2044	1,013,000	93,150	1,106,150
	<u>\$ 6,383,000</u>	<u>\$ 7,134,030</u>	<u>\$ 13,517,030</u>

The above maturity schedule is based on the assumption the District receives the remaining proceeds of the series 2004A bonds of \$2,842,400 during the fiscal year ending September 30, 2007. It is also based on the projected payment dates in September of each year, for amounts due on October 1.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE G – RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The District has obtained coverage from a commercial insurance company. The District has comprehensive general liability coverage of \$1,000,000 per occurrence and \$3,000,000 in the aggregate and has obtained worker's compensation coverage.

All risk management activities are accounted for in the financial statements of the District. Expenses and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

Management estimates that the amount of actual or potential claims against the District as of September 30, 2005, will not materially affect the financial condition of the District. Therefore, the financial statements contain no provision for estimated claims. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE H – COMMITMENTS AND CONTINGENCIES

In the normal course of construction projects, the District receives loan and grant funds from various federal and state agencies. These programs are subject to audit by agents of the lending and granting agencies, the purpose of which is to ensure compliance with conditions precedent to the awarding of funds. Any liability for reimbursement which may arise as a result of these audits is not believed to be material.

NOTE I – RELATED PARTY TRANSACTIONS

The member municipalities of the District have entered into a financing contract with the District. Under terms of the contract, the member municipalities are responsible to pay the District amounts sufficient to cover the costs of financing the construction. These costs are allocated to the members as follows:

Charter Township of Ironwood	73.2%
Bessemer Township	<u>26.8%</u>
Total	<u><u>100.0%</u></u>

In December of 2003, the member municipalities started to levy a special assessment on property in the District. These funds are to be used to cover costs during the construction period. This special assessment was for a 3 year period. Future costs are anticipated to be funded by user charges.

The District received the following amounts from the member municipalities:

	Charter Township of Ironwood	Bessemer Township	Total
2006	\$ 218,167	\$ 78,032	\$ 296,199
2005	219,696	78,032	297,728
2004	237,110	84,769	321,879

These amounts have been recorded as transfers from the municipalities.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE I – RELATED PARTY TRANSACTIONS (continued)

The District has also paid the following amounts to the member municipalities:

<u>Year ended September 30,</u>	<u>Charter Township of Ironwood</u>	<u>Bessemer Township</u>	<u>Total</u>
2005 (note principal)	\$ 220,000	\$ 80,000	\$ 300,000
2005 (interest)	22,730	6,488	29,218
2005 (legal)	14,000	6,000	20,000

These amounts indicated as paid for note principal has been recorded as transfers to the municipalities. This represents funds originally advanced to the District to pay engineering costs. The municipalities had borrowed the funds and advanced them to the District.

The amounts indicated as interest and legal represent costs paid by the municipalities related to the municipal borrowings. These payments by the District have been capitalized as capital assets.

NOTE J – ECONOMIC DEPENDENCY

The District operates on finances and guarantees provided by the member municipalities. Accordingly, the District is dependent on the continuing support provided by these member municipalities.

OTHER FINANCIAL INFORMATION

POWDERHORN AREA UTILITY DISTRICT
IRONWOOD, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended September 30, 2006

<u>Federal Grantor Pass-Through Grantor Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Program Award Amount</u>	<u>Federal Expenditures</u>
US Department of Agriculture:			
Direct Programs:			
Water and Waste Disposal Systems for Rural Communities:			
Loan Program	10.760	6,500,000	2,889,369
Total Federal Expenditures			<u><u>\$2,889,369</u></u>

POWDERHORN AREA UTILITY DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended September 30, 2006

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal activity of Powderhorn Area Utility District, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Expenditures in this schedule are in agreement with the amounts reported in the financial statements.

2. Loans Outstanding – Powderhorn Area Utility District had 2 outstanding bonds as of September 30, 2006. Both are held by the U.S. Department of Agriculture for funding provided for construction projects as follows:

Series 2004A, issued \$5,598,000 with an outstanding balance at September 30, 2006.	\$ 2,654,600
Series 2004B, issued \$902,000 with an outstanding balance at September 30, 2006.	<u>886,000</u>
Balance at September 30, 2006.	<u><u>\$ 3,540,600</u></u>

3. Sub recipients – Of the federal expenditures presented in the schedule, Powderhorn Area Utility District, provided no federal awards to sub recipients.

4. The federal program (U.S. Department of agriculture) was selected as a major program, Type A using the risk-based audit approach and the 50% high-risk auditee coverage rule.

5. Reconciliation to funds advanced:

Proceeds from bonds	\$ 2,329,000
Construction costs payable at 9.30.06	1,051,802
Construction costs payable at 9.30.05	(488,302)
Non federal share of costs	(3,836)
Use of prior year funds	<u>705</u>
Total Federal Expenditures	<u><u>\$ 2,889,369</u></u>

DAVID TRACZYK

Certified Public Accountant

327 SILVER STREET
HURLEY, WISCONSIN 54534-1255

Member: AICPA, WICPA

Licensed: MI, WI

Tel: 715-561-3299

Fax: 715-561-4099

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Chairman and Members of the Board
Powderhorn Area Utility District
Ironwood, Michigan

I have audited the financial statements of Powderhorn Area Utility District as of and for the years ended September 30, 2006 and 2005, and have issued my report thereon dated February 23, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Powderhorn Area Utility District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether Powderhorn Area Utility District's financial statements are free of material misstatement, I performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

However, I noted other matters involving the internal control over financial reporting I have reported

to Management of Powderhorn Area Utility District, in a separate letter dated February 23, 2007.

This report is intended solely for the information and use of management and member municipalities, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

February 23, 2007

DAVID TRACZYK

Certified Public Accountant

327 SILVER STREET
HURLEY, WISCONSIN 54534-1255

Member: AICPA, WICPA

Licensed: MI, WI

Tel: 715-561-3299

Fax: 715-561-4099

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Chairman and Members of the Board
Powderhorn Area Utility District
Ironwood, Michigan

Compliance

I have audited the compliance of Powderhorn Area Utility District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2006. Powderhorn Area Utility District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Powderhorn Area Utility District's management. My responsibility is to express an opinion on Powderhorn Area Utility District's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Powderhorn Area Utility District's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Powderhorn Area Utility District's compliance with those requirements.

In my opinion, Powderhorn Area Utility District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2006.

Internal Control over Compliance

The management of Powderhorn Area Utility District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Powderhorn Area Utility District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is areportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be a material weaknesses.

This report is intended solely for the information and use of management and member municipalities, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

February 23, 2007

POWDERHORN AREA UTILITY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended September 30, 2006

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Powderhorn Area Utility District.
2. There were no reportable conditions disclosed during the audit of the financial statements reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
3. No instances of noncompliance material to financial statements of Powderhorn Area Utility District were disclosed during the audit.
4. There were no reportable conditions disclosed during the audit of the major federal award program reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award program for Powderhorn Area Utility District expresses an unqualified opinion.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major program were the U.S. Department of Agriculture C.F.D.A. Number 10.760.
8. The threshold for distinguishing Type A programs was \$300,000.
9. Powderhorn Area Utility District was determined not to be a low-risk auditee.

FINDINGS – FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

U.S. Department of Agriculture, CFDA No. 10.760.

None

POWDERHORN AREA UTILITY DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

Year ended September 30, 2006

There were no audit findings during the prior year related to federal awards.